A F F O R D A B L E H O U S I N G
CONNECTIONS

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California Housing Finance Agency

Theresa A. Parker,
Executive Director

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CHFA TACKLES ISSUE OF PRESERVATION OF AFFORDABLE UNITS

Economic recovery and population increases are fueling heightened demand for affordable rental housing. Although this outcome is the usual consequence of these two events, there is a third factor unique to the current rental market that is creating a significant new problem for California. That added new factor is the impact of expiring rental assistance support throughout the state. And this is particularly true in markets where market rates have risen rapidly and surpassed the rental assistance contract rents. It's a major problem that no single entity can solve on its own. It will take the coordinated effort of many resources to effectively address this situation.

We estimate that there are about 112,000 rental units with expiring HUD Section 8 project-based assistance contracts, another 53,500 units of other forms of rental assistance (such as HUD Section 236), of which an estimated 30% to 50% could opt out of affordable housing agreements, and another estimated 28,000 units that are assisted by locally issued tax-exempt bonds with regulatory agreements expiring over the next few years. It all adds up to a very serious potential loss of affordable rental units at a time when demand is increasingly greater than supply. This unique set of circumstances has refocused attention on the issue of affordable rental housing preservation.

CHFA began formulating a strategy to address this issue when developing its latest Five Year Business Plan which was adopted by the CHFA Board in May 1998. There are two components to the CHFA game plan. The first is to participate in the HUD Mark-to-Market (M2M) program as HUD's contractor in California, and the second is the development of new financing programs for the purpose of encouraging the retention of expiring use projects as affordable housing resources.

The HUD Mark-to-Market program is a federally legislated effort to address the problem of Section 8 projects with contract rents in excess of market rents. The objective is to reduce current Section 8 contract rents to market levels by essentially restructuring existing debt so that the first mortgage can be debt serviced by a market rent equivalent contract and a residual second mortgage which will be held by HUD. Public agencies such as CHFA will be contracted by HUD to undertake the financial restructuring of those eligible projects.

CHFA submitted its application to become the Participating Administrative Entity (PAE) by the September 16, 1998, deadline and has been notified that we have been selected as a qualified PAE. However, implementation of the program will not proceed until HUD issues its program manual and executes a contact with the selected PAEs.

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DIRECTOR CONNECTION

As we approach the end of this calendar year, I want to express on behalf of our Board of Directors and Staff, our best wishes to you and yours for peace and joy during this holiday season and continued success in the coming New Year. We are faced with many challenges in the months ahead as we seek to maximize the financial resources and harness the creative talent and energy of the CHFA staff to work with the sponsors and developers of rental housing for California's working families and senior citizens. I think we are up to the challenge and the CHFA team looks forward to working with you.

You will no doubt notice that this is a new format for our ***CONNECTIONS*** newsletter. We think it will be easier to read and wherever possible we will be attempting to condense the information here to bite-sized pieces.

There has been much that has happened since our last newsletter. CHFA's role in financing the rental housing component of Marin City USA and the Agency's Special Needs Housing Program were recognized with Awards for Program Excellence by the National Council of State Housing Agencies.

We have a new Governor and we are looking forward to working with his new Business, Transportation and Housing Agency leaders as well as his new leadership in the Department of Housing and Community Development. We also have a new State Treasurer who brings to his position in-depth knowledge of real estate development in California and we are hopeful he will give priority to housing in the role he and his staff will play in the private activity bond allocation process.

The November election also had an impact on affordable housing. The voters approved Proposition 1A, the school fees impact measure, which will return $160 million to benefit homebuyers and tenants in multifamily rental projects for which building permits are issued after January 1, 1999. CHFA will be responsible for administering this new program. Look for more details on this in our next newsletter.

On the Federal legislative front, we enjoyed a victory, with the inclusion of the increase in the private activity bond cap in the final omnibus tax measure, albeit a delayed victory. The increase will occur in five dollar increments beginning in the year 2003 and increase by five dollars each year thereafter until 2007 when the $75.00 per capita goal is reached. Unfortunately there was no provision included to provide indexing for inflation. We will now begin the process again when the 106th Congress convenes in January to attempt to accelerate the implementation to next year.

And, in conclusion, we have just published our new 1997-98 Annual Report ***Innovations in Affordable Housing Finance***. You will find this report informative in that we asked several people to express in their own words what the various CHFA innovative programs have meant to them. To receive a copy, simply return the enclosed business reply card.

Chairman of the Board: Clark Wallace

Executive Director: Theresa A. Parker

Editor: Bill Cranham

Sacramento Main Office:
1121 L Street, 7th Floor
Sacramento, CA 95814
(916) 322-3991

Los Angeles Office:
100 Corporate Pointe, Suite 250
Culver City, CA 90230
(310) 342-1250

800-736-2432

CHELSEA GARDENS

Chelsea Garden Apartments in Santa Rosa represents a model for housing preservation in the era of expiring project-based Section 8 rental assistance. Preserving attractive affordable rental properties in strong real estate markets poses the greatest challenge to affordable housing developers and CHFA's preservation financing programs.

Chelsea Gardens is a 120-unit complex located in the western part of Santa Rosa. The project was built in two phases (1977 and 1982). It occupies a beautiful 13 acre site which has an abundance of mature trees and open space complete with a creek running through the site. The project's units include studios, one, two and three bedrooms with play areas, a swimming pool and landscaped areas.

The project-based Section 8 contact on Phase I expired and is being renewed annually. The Section 8 contract on Phase II is scheduled to expire in four years. The challenge for the project's sponsor, BRIDGE Housing, and for CHFA was to devise a transition plan that allowed for the change to an income profile of a tax-exempt 4% tax credit rent structure, while minimizing the impact on the existing tenants. To facilitate the transition, a contingency fund will be established utilizing excess income derived from the Section 8 contract. This transition account will be used to supplement tenant income at the termination of the project-based rental assistance until tenants can qualify at the new income levels.

While the project will transition to tax credit rents, it will still offer deep affordability compared to equivalent market rate projects. The CHFA rents for tenants with incomes at 50% of median income will range between $150 and $250 below market rate rents, while the rents for tenants with incomes at the 60% level will be $100 to $150 less than market rents.

CHFA financing package will consist of a 30-year loan for $4,455,000 (tax-exempt bond funding) with an interest rate of 5.9%, and a deferred payment second loan from CHFA's Housing Assistance Trust (HAT) for $450,000 accruing 3% simple interest. The second loan will be payable beginning in the fifth year from residual receipts. This second loan for the project is critical, since no locality funds were available to assist in the initial acquisition costs. The repayment of the HAT loan can be accelerated should funds from the transition account not be required.

The financing structure and tansition account developed for the Chelsea project represents a model for future preservation transactions and is a significant step in developing strategies for preserving at-risk low income affordable housing.

HOOKSTON MANOR

Hookston Manor Apartments is a 100-unit complex located in Pleasant Hill, Contra Costa County. Although this project is 30 years old and in need of some upgrades and repair, the project's tenants were at risk due to rising market rental rates in the area. The project's sponsor, Affordable Housing Associates, a non-profit housing developer, sought to acquire Hookston Manor and preserve affordability for an extended period.

Housing supply for low income tenants in Contra Costa County is critically low. There are few existing affordable senior projects and a limited number are planned in the immediate future. Many seniors must pay an increasing amount of their income for rent, in fact an estimated 3,700 very low income seniors in Contra Costa County must pay over 50% of their income for rent.

One of the desired components we liked at Hookston Manor was deep affordability. Rents were restricted to tenants whose incomes fell within a range from 30% to 60% of median income, with the majority of the units for tenants with incomes at 50% and 55% of median income.

In order to achieve this level of affordability, the sponsor has

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HOOKSTON MANOR (cont.)

received significant financial commitments resulting in a layered financing package. The City of Pleasant Hill and the County of Contra Costa each contributed $500,000 in low interest financing which will be repayable from residual receipts. The project also received an Affordable Housing Program (AHP) loan of $450,000 along with a tax credit equity investment of approximately $2.6 million.

CHFA financing for the project was provided in two components: a (tax-exempt bond funded) 30-year $4,250,000 loan with interest at 5.9%, and a taxable tax-credit bridge loan payable over 5 years amortizing at 7%. This second component of the CHFA loan package "bridged" the pay-ins by the tax credit investor which ultimately served to increase the amount of the equity investment in the project.

Fortunately the project did not require any significant rehabilitation other than replacement of the roofs and repair of some second floor balconies. Affordable Housing Associates has an ongoing job-taining program for homeless and low income individuals. The Hookston Manor rehabilitation will provide an excellent opportunity to employ these individuals and, at the same time, provide them with invaluable job skills.

SPECIAL NEEDS FLYERS NOW AVAILABLE

CHFA's Special Needs Program guidelines are now spelled out in a new flyer insert for the ***Opening the Door to Financing Affordable Rental Housing*** *multifamily brochure. If you would like to receive a copy of these new guidelines, please check the appropriate box on the enclosed business reply card.*

B

Name of Project/Sponsor	# of Units	Ty
RIVERVIEW HOMES RURAL CALIFORNIA HOUSING CORP. TRUCKEE NEVADA COUNTY NEW CONSTRUCTION	40	F
HERCULES SENIOR HOUSING BARONE GALASSO & ASSOCIATES CARLSBAD SAN DIEGO COUNTY NEW CONSTRUCTION	116	F
RANCHO CARILLO HOUSING BRIDGE HOUSING HERCULES CONTRA COSTA NEW CONSTRUCTION	60	S
HOOKSTON MANOR AFFORDABLE HOUSING ASSOCIATES PLEASANT HILL CONTRA COSTA ACQUSITION/REHAB	100	S
PARK PLACE FOUNDATION FOR QUALITY HOUSING VAN NUYS LOS ANGELES COUNTY ACQUSITION/REHAB	142	F
CCBA SENIOR GARDEN APTS. CHINESE CONSOLIDATED BENEVOLENT ASSOC. LOS ANGELES COUNTY NEW CONSTRUCTION	45	S

OARD CONNECTION . . . RECENT BOARD ACTION

ype	Loan Amount	LIHTC	Locality Loans/Grants	Other Loans/ Subsidies	COMMENTS
F	$2,100,000 (6.05% 35 Years) '$1,210,000 HAT/ Bridge Loan (7% 5 Years)	4%		$1,000,000 HCD/HOME $234,000 AHP	Rental Complex is a tract of Single Family homes. After a 15-year tax credit compliance period, may convert to an affordable housing opportunity, selling the individual units to then-existing tenant occupants under a lease option arrangement.
F	$6,450,000 (6.05% 35 Years)	4%		$3,132,000[1] 1,297,000[2]	[1] Seller taking back land loan and a note[2] (both payable from residual reciepts over 55 years).
S	3,550,000 (5.90% 25 Years) $575,000 Bridge Loan	4%	$1,4000,000[3] (3.5% 45 Years)	$690.000 HOME $210,000 AHP	[3] 3.5% over 45 years, plus a contribution of $130,000 annually. 5.5 acre site located in central city area and adjoining senior center.
S	$4,600,000 (5.90% 30 Years) $1,515,000 Taxable Bridge Loan. Payable over 5 years from tax credit proceeds.	4%	$500,000 Each Contra Costa County & City of Pleasant Hill	$450,000 AHP	Acquisition/Rehab/Preservation Project You will find an in depth profile of this project on page 3.
F	$4,600,000 (5.90% 30 Years)	4%	$1,100,000[4]		[4] Application with the City of LA Housing to be used to fund extensive rehab.
	$1,950,000 (6.05% 35 Years) $360,000 Bridge Loan	4%		$878,000	City of San Diego is donating land through a 55-year lease.

EFFORTS TO INCREASE LOW INCOME HOUSING TAX CREDITS FALL SHORT

In the first session of the 105th Congress, Representatives Ensign (R-NV) and Rangel (D-NY) introduced H.R. 2990 in the House and Senators D'Amato (R-NY) and Graham (D-FL) introduced S.1252 in the Senate to increase the Low Income Housing Tax Credit. The bills would have increased the Low Income Housing Tax Credit authority to $1.75 per capita per state, and also provide for indexing the cap for inflation beginning in 1999.

In the end, S. 1252 had gathered 67 co-sponsors including both California Senators and H.R. 2990 had 283 co-sponsors including 37 from California. Unfortunately, because of the extremely limited revenues available for this tax bill, last minute efforts to include the Housing Credit cap increase fell short. Legislation to increase the Housing Credit is expected to be introduced in the next Congress in early 1999.

HOLIDAY GREETINGS

From the CHFA family
to yours
with every good wish
that the Spirit of Goodwill
which is so much a part
of the Season
extend for you and yours
into the coming New Year
and may the New Year
bring continued success
as we work together to provide
Affordable Rental Housing
for California's Working Families.

INCREASE IN FHA RISK SHARE UNITS IN 1999 HUD/VA APPROPRIATIONS

On October 21, the President signed the FY 1999 HUD/VA/IA Appropriation Bill (H.R. 4194). The Bill provides $24.6 billion in funding for Fiscal Year 1999, an increase of more than $2 billion dollars over last year's levels. Of particular interest to CHFA multifamily borrowers is that the Bill authorizes 25,000 additional units for the FHA-HFA Risk-Sharing Program. To date, CHFA has utilized more units than any other state under this program, and it is anticipated that CHFA will be able to receive a sizeable allocation of the newly authorized units. In addition, the Bill provides for a major overhaul of the public housing and Section 8 tenant-based rental assistance programs.

PRIVATE ACTIVITY BOND CAP INCREASE (H.R. 979) UPDATE

First of all, thanks to all of you who wrote to your Representatives in Congress to urge them to cosponsor H.R. 979. Collectively, you have all helped us get to where we are today in seeking an increase in the private activity bond allocation for California. The battle for passage of H.R. 979, by Representative Kennelly (D-CT) and Representative Houghton (R-NY), and S.1251, by Senator D'Amato (R-NY) and Senator Breaux (D-LA) to increase the tax-exempt Private Activity Bond cap from $50 to $75 and to index the cap for inflation waged on until the final moments of the 105th Congress. In the final analysis, Ways and Means Committee Chairman Archer (R-TX) could not ignore the 326 House cosponsors (44 from California) and the 57 Senate cosponsors (two from California) supporting an increase in housing bonds.

In September, the House Ways and Means Committee marked up its tax bill and included the first-ever Congressional approval to increase the Private Activity Bond cap. In the meantime, the President threatened to veto any tax measure which did not first shore up Social Security. The Senate, recognizing the reality that President Clinton would follow through with his threat to veto the $80 billion House version of the tax bill, rewrote the House's tax bill.

With time running out and members wanting to adjourn to go back to their districts to campaign for reelection, the House and Senate negotiated and agreed upon a reduced tax bill of $9.2 billion with only a handful of renewals for important expired tax provisions and a few new comparably high-priority items. The Bill ultimately approved by the House and Senate included a Private Activity Bond cap increase, phased-in over five years beginning with $55 in 2003 and ending with $75 in 2007. However, the bill does not include any provision to adjust for inflation. This was truly a tremendous victory for affordable housing, even though we will not enjoy the full result until 2007.

Congress and the President are now on record for a cap increase and the Ways and Means Committee has assured the industry that the phase-in was all they could do at this time in this bill, but it is not a barrier to accelerating the increase in a larger tax bill next year, if we have the cosponsors. A new bill to increase the Private Activity Bond cap to $75 beginning in year 2000 is expected to be introduced in early 1999, and we hope you will once again be with us in urging your Members of Congress to sign on as cosponsors.

Preservation (cont.)

We are anticipating that this will occur the early part of 1999.

The second component of CHFA's preservation program strategy involves a separate financing approach to deal with those projects not eligible for the M2M program. We estimate that nearly 80% of the HUD porfolio in California are opt-out candidates and will not be eligible for M2M consideration.

Since the beginning of the current fiscal year in July, the Agency has made steady progress in obtaining approval for preservation loans and laying the groundwork for increased program activity. As of their November 1998 meeting, the CHFA Board of Directors has approved $13.3 million in loan commitments for three preservation projects. In addition, we have another nine preservation projects in our multifamily loan processing pipeline which total $39 million in potential loan commitments.

The approval process which we have experienced with the Chelsea Gardens commitment has established a template for us to use in reviewing projects with expiring Section 8 subsidies. We feel that this processing template can be used on a wide range of similar projects that we expect to come before us in the coming months. CHFA is also exploring the expanded use of tax-exempt bonds as a vehicle to preserve those projects which are currently jointly owned by nonprofit sponsors or being acquired by nonprofit sponsors. Taxable bond financing is also an option being offered by CHFA to sponsors seeking acquisition loans or longer term refinancing.

MULTIFAMILY PROGRAMS RECOGNIZED FOR EXCELLENCE BY NCSHA

CHFA has received two highly coveted Awards for Program Excellence at the recent 28th Annual Conference of the National Council of State Housing Agencies (NCSHA) held in Seattle.

NCSHA's Annual Awards for Program Excellence honors state housing finance agencies for their implementation of outstanding public purpose programs and projects. The competition attracts the most innovative programs serving lower income people, the most effective management innovations, and the best use of legislative efforts and communications to promote affordable housing opportunities and achievements. The recognition these awards bestow upon the winning states helps further the cause of affordable housing for working families across the country. A major purpose for NCSHA having these awards is to draw attention to programs or activities that should be replicated, if at all possible, by all housing finance agencies.

The awards are given in 11 categories encompassing affordable housing components in the areas of homeownership, rental housing, special needs housing, management innovation, federal legislative campaign and communications. In addition to the single award winner in each category, two significant achievement awards may be given for programs or activities which have accomplished exceptional results regardless of replicability.

In all, NCSHA received 147 entries for the 1998 Annual Awards for Program Excellence (with 11 submissions from CHFA). In addition to the 11 awards which were given out (two to CHFA), there were 14 awards for Significant Achievement (with CHFA receiving one).

CHFA was recognized in the category of "Rental Housing: Empowering New Renters" for providing the permanent financing for the rental housing component of Marin City USA. CHFA's second award was in the "Special Housing Needs" category for its Special Needs Loan Program which provides very low interest permanent financing for projects housing individuals with a wide range of mental and physical special needs. And, for the category "Management Innovation," the CHFA Lender Access System received a Significant Achievement Award.

Although CHFA has been committed to making loans to projects that promoted neighborhood revitalization, the Agency had never been involved in an extensive and all-encompassing project that dramatically altered an entire community. In early 1994, CHFA was approached by the late Don Terner of Bridge Housing to pursue a loan commitment for the rental housing component of the Marin City USA project, located in the San Francisco Bay Area. For approximately 10 years, Don Terner and others recognized the critical need to transform the Marin City community. The area was mainly occupied by public housing residents living in 35-year old mid-rise buildings and due to its isolated geographic nature, the area had largely been ignored since World War II. The median income of Marin City residents was one-third of county median and the unemployment rate was 30%, compared to 3% for the rest of the county.

The solution to the problem needed to be a dramatic transformation of the entire community with all components being completed in essentially the same time frame. Building in phases presented the risk of delay and an incomplete transformation. Three components were deemed to be critical for the community to be transformed: commercial and retail space of sufficient size and diversity to attract residents and area shoppers, and, equally important, to provide a source for new jobs for the community; for-sale housing aimed at low income first-time homebuyers; and, most importantly, rental housing for both low income and market rate tenants.

No lender prior to CHFA's involvement was willing to commit to a long-term loan for rental housing in Marin City and it was generally agreed that the rental housing loan commitment was the first

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Awards (cont.)

key step in securing commitments for loans on the other elements of the elements of the project. This situation relegated the project to the “drawing board” for over 10 years until this “award winning” solution resulted in the creation of this much needed project.

The commitment to lend for the Marin City USA project involved more than just normal loan underwriting. Essentially, the CHFA staff and CHFA Board of Directors were required to evaluate and decide if the entire community development plan was viable. The marketing plan and pricing for homeownership, the anchor tenants in the retail center and a commitment from the locality for substantial infrastructure improvements all needed to be analyzed. Layered on top of these evaluations were complex agreements for sharing bond assessment payments, various owner associations created to maintain the numerous common areas and a complex ground lease with terms and conditions for each development parcel.

The resulting financing package that CHFA put together ($24,350,000) was the largest in the history of the Agency.

The Special Needs Loan Program is designed to provide very low interest, permanent financing for projects housing individuals with a wide range of mental and physical special needs. Where necessary, project financing will be subsidized so that special needs projects can achieve long-term financial stability and thereby devote scarce funds to the support of the tenants needs. The Program intends to serve those with mental and physical disabilities, individuals and families undergoing substance abuse recovery, populations in danger of homelessness and those with HIV/AIDS. Guidelines are intended to be broad enough to encompass individuals not normally considered eligible for supportive housing programs. CHFA has actively encouraged diverse populations so the program can reach the widest spectrum of those in need.

In addition to the two Program Excellence awards, CHFA's Lender Access System received a Significant Achievement Award in the category “Management Innovation.” This Lender Access System (LAS) is an interactive, “on-line” reservation process, permitting CHFA's 34 single family lenders, with approximately 545 branch offices to connect to CHFA's computer system via modem to process loan applications.

California Housing Finance Agency
Sacramento Main Office
1121 L Street, 7th Floor
Sacramento, CA 95814